

FISCAL NOTE

Bill #: SB0467

Title: High deductible health savings account option for state employees

Primary Sponsor: Esp, J

Status: As Introduced

Sponsor signature

Date

David Ewer, Budget Director

Date

Fiscal Summary

	<u>FY 2006 Difference</u>	<u>FY 2007 Difference</u>
Expenditures:		
General Fund	\$0	\$0
Revenue:		
General Fund	\$0	\$0
Net Impact on General Fund Balance:	\$0	\$0

- | | |
|---|--|
| <input type="checkbox"/> Significant Local Gov. Impact | <input type="checkbox"/> Technical Concerns |
| <input type="checkbox"/> Included in the Executive Budget | <input type="checkbox"/> Significant Long-Term Impacts |
| <input type="checkbox"/> Dedicated Revenue Form Attached | <input type="checkbox"/> Needs to be included in HB 2 |

Fiscal Analysis

ASSUMPTIONS:

Department of Administration

1. This bill would require the Department of Administration, State Employee Benefit Plan to offer a minimum of two high deductible health plans (HDHPs) in conjunction with a Health Savings Account (HSA).
2. These plans and associated HSA structure must be in place by January 1, 2006.
3. A HSA is an individual trust account. Funds placed into the account are the property of the account holder regardless of whether they are contributed by an employer, the account holder, or some other entity.
4. The State Employee Benefit Plan self-insures all medical, prescription drug, and dental coverage for the 32,000 employees, legislators, retirees, Medicare retirees, and their dependents covered by the plan.
5. The state currently offers four medical plans: Traditional Plan, New West Managed Care Plan, Blue Choice Managed Care Plan, and Peak Health Managed Care Plan. These four plans are part of the State Employee Benefit Plan self-insured claims pool.
6. The state offers one prescription drug plan regardless of medical plan selected by the plan member.

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7. Under state statute, non-Medicare retirees may not be charged a greater premium for a given plan than the rate charged to the active employee under the same plan within the same coverage tier (single, family, etc.)
8. Approximately 2/3 of the total State Employee Benefit Plan costs come from the state share employer contribution. The remaining 1/3 come from premiums charged to retirees and to members who cover their dependents under the plan.
9. The amount of state share credited on behalf of an individual employee is greater than the amount needed to cover a single active employee's coverage. The remaining contribution is used to partially subsidize the coverage costs for retirees and for the dependents of employees who are covered under the plan.
10. A HDHP as defined by the Medicare Modernization Act requires the following elements:
 - Minimum Deductible: \$1,000 single / \$2,000 family coverage (indexed annually to inflation); this bill does not specifically set deductible levels for the HDHP plans;
 - Out-of-Pocket Expense Maximum: \$5,000 single / \$10,000 family coverage (indexed annually to inflation); this bill does not specifically set out-of-pocket levels for the HDHP plans;
 - First dollar coverage is NOT permitted under the HDHP with the following exceptions; long-term care, dental or vision coverage, specific disease or illness coverage (e.g. a cancer policy), and disability coverage;
 - A HDHP may include an Employee Assistance Program, disease management program, or wellness program as long as significant benefits are not provided in the nature of medical care or treatment;
 - Drug discount cards may be used in conjunction with a HSA;
 - First dollar coverage that makes someone ineligible for a HSA include: Medicare coverage, TriCare coverage, use of a Flexible Spending Account (FSA), or use of a Health Reimbursement Arrangement (HRA); other first dollar coverage for medical or prescription drug coverage also renders someone ineligible for a HSA;
 - A FSA or HRA may be used in conjunction with a HSA if they only cover items such as dental or vision or if they cover "post-deductible" reimbursement under the HDHP.
11. Funds in a HSA may not be used to pay for any insurance premiums with the exception of: COBRA coverage, health plan coverage while receiving UI benefits, qualified long-term care insurance, or Medicare participants who are not in a Medicare supplement (A-J) plan. State Employee Benefit plan members could not use their HSA accounts to pay premiums for active employee dependents or non-Medicare retiree premiums. The State Plan Medicare coverage for retirees is an eligible reimbursement under a HSA.
12. As SB 467 is written, there are two likely options for administration of the bill that the department could apply:
 - Option 1 – HDHP Offerings (no Employer Contribution):
 - a. A high deductible health plan offering may reduce the overall increase in claims costs paid by the State Plan since more is being paid out-of-pocket by the plan member.
 - b. A lower rate of increase in claims costs could be used to hold down premium increases. The amount of savings is not able to be determined at this time since the deductible levels, participation levels, and other elements of the plan would need to be set and then actuarially calculated.
 - c. The department would determine overall premium levels for the HDHP plans as well as the existing four medical plan offerings.

Pros – This approach would limit the financial risk to the State Employee Health Plan as much as possible.

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Cons – It is not clear at this time if the HDHP plans would be attractive to participants. Rates would need to be low enough to attract members while being sufficient to pay for the cost of the plans. Potential for adverse selection among plans offered may still exist. Employees may see these offerings as a reduction of benefits.

Option 2 – HDHP Offerings (with Employer Contribution to HSA account):

- a. A portion of savings from the HDHP plans could be deposited to individual HSA accounts of participants.
- b. Once the funds are deposited to the account, they become the property of the participant and are no longer available to cover the cost of claims incurred by other members of the pool.

Pros – This option would be more attractive to participants and reduce their personal risk. It would allow those who do not expend their HSA money to acquire funds over time to pay for out-of-pocket health care costs.

Cons – Sick people would not be as likely to choose a HDHP. They would opt to stay in a lower deductible health plan where their immediate expenditure needs would receive greater protection. Sick people would be less able to build HSA account balances since they would need to spend the contribution to cover their out-of-pocket costs. Healthy people would be likely to select this plan since they do not anticipate having costs. The portion of the funds, which historically has been available to pay for the coverage of the sicker population, would no longer be available, driving up the cost of those plans. With sufficient adverse selection, the older or sicker population would either have to pay more in premiums or the department would need to request additional funds from the legislature to cover their costs (please see assumption 7. above).

13. Current resources within the Employee Benefits Bureau will be sufficient to develop and offer the HDHPs to state employees as required by this bill. It is assumed that there will be no additional cost, or savings to the bureau related to the implementation of a HSA and HDHP.
14. Due to the many uncertainties with how HSA and HDHPs would be accepted by employees, the demographics of the population that would elect this type of health plan, and uncertainties related to the performance of the plans, it is not possible to predict whether or not developing and implementing a HSA and its associated HDHPs in conjunction with the other health plans offered by the state, would have a net fiscal impact. This fiscal note takes the assumption that there would be no additional fiscal impact given the items of consideration presented in the previous assumptions.

Montana University System

15. The MUS is excluded from the definition of state employee in the section of law that is codified.